

THE RISE OF CAPITALISM IN JAPAN¹

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THE DEVELOPMENT of Japan's economy since the Restoration of 1868 has been very abnormal. This was inevitable since Japan was untrained in the system of capitalism, and obliged from the beginning to face the competition of advanced nations, with whom she was eager to be counted an equal in the shortest possible time. Under these circumstances, Japan's economic transformation has been marked by the following characteristics: 1) the wholesale importation and eager imitation of occidental capitalism; 2) in this whole process of imitation the Meiji Government itself was the pioneer and aggressive leader; and 3) the samurai were the class who coöperated most readily with the Government in pursuit of this policy of transforming the nation's industries according to the principles of capitalism.

At the time of the Restoration, Japan emerged from a dying feudalism and was suddenly brought into contact with a highly developed, western capitalism. Since there was not time for adaptation, young Japan had no alternative but imitation. But even a policy of imitation required some initiative, some spirit of adventure, qualities that were pretty generally lacking among the people due to the limitations imposed upon them by centuries of feudalism. Capitalistic enterprises called for risk and adventure, and these the people were too timid to undertake. In such circumstances the Government had to take the lead. This explains why industry in Japan has been so dependent upon paternalism, bureaucratic leadership, and protective tariffs.

The men who followed the lead of the Government in the importation of capitalism were not the somewhat slavish, old-fashioned farmers, traders, and craftsmen, but rather the samurai. The whole reorganization involved in the Restoration left this group without their former means of support and therefore rather than undertake competition with the old economic groups such as the farmer and trader classes, they accepted the lead of the Government in the new task of introducing western capitalism. For this task they were bet-

¹This article written before the Manchurian invasion which began in 1931, not only traces the general development of Japanese economy since 1868, but emphasizes the crisis of capitalism in Japan just preceding, and in some measure responsible for, that adventure. (Q.W.)

ter prepared intellectually than any other class of society and they went about their new business with great earnestness. Capitalism came in, therefore, under the wings of the Government and with the newly disinherited feudal lords as eager students in the new economic processes.

The contrast between capitalism in Europe and capitalism in Japan is striking. In Europe the development was slow and regular, and was carried forward by the old economic groups, while here it was swift and irregular, and promoted by those who, in the old society, were not producers but parasites. In Europe industrialism, blest with the freedom inspired by the doctrine of *laissez faire*, molded the political order into shape in accord with its own requirements, but in Japan the political order, that is, the state, was from the beginning the promoter and protector of industrial capitalism. In Europe it was an evolutionary process coming up from below: in Japan it was an imitative process sponsored by the state.

Economic growth due mainly to imitation and Government aid reached the limits of its possibilities during the Meiji era. Subsequent to this, independent and creative activity of capitalists became necessary for further growth. While this tendency toward *laissez faire* was on in Japan, capitalism throughout the world took on a distinctly imperialistic color, and the advanced capitalistic nations abandoned their *laissez faire* policies in favor of a closer, more coöperative relation between economy and politics. The economic condition of Japan from the last year of the Meiji era through the eras of Taisho and Showa (1912—) presents extremely complicated characteristics.

As is well known, Japan's economic life underwent a wonderful development after the Restoration in 1868. Capitalism reached a climax in the Taisho era (1912-26). But the very soil in which it had grown began to lose its nutriment and was exhausted by the time capitalism had reached mature age. In the meantime, various contradictory factors, corruption and other vices incident to capitalism were precipitated, so that within only sixty years from the time of the Restoration, Japan's capitalistic economy met with serious obstructions. Some space must be devoted to an explanation of the causes of this situation.

In Europe, capitalistic civilization required two or three centuries for its development, while in Japan it was accomplished in only half a century. One reason for this rapid development was



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that when Japan came in contact with occidental civilization, she was able to transplant and imitate scientific techniques which had taken, in other countries, centuries of slow evolution to develop. Because of this advantage, Japan was able to increase her productive power and exploit her resources with exceptional rapidity. Large quantities of coal, copper, and other mineral resources, now tapped for the first time, added to the nation's wealth. The extended services of railways and steamships, too, facilitated the utilization of forests and uncultivated lands as never before, thus greatly increasing the nation's wealth. By the use of machinery, as well as the network of banking and commercial organization, the utilizable value of labor and capital increased by leaps and bounds.

But this imitation and adaptation of occidental sciences and technical skill have been worked to the limit, and now that the national resources have been almost exhausted, it is not too much to say that there is no prospect for further increase of Japan's productive power by capitalistic methods. Railways, for instance, have been constructed so far as is commercially profitable. Collieries and other mines have been exploited all over the country. The financial system, machinery, chemical industries, and factories have been transplanted as far as considered profitable, for capitalism justified no further expansion.

Another reason for the exceptional economic development in Japan during the years following the Restoration was the sudden exploitation of abundant national resources. Railways and machinery increased productive power in a remarkable manner, while in agriculture and mining, there was a tremendous advance.

For instance, the area of cultivated land about 1877 was only 4,313,000 *cho* (one *cho* equals 2.45 acres). In spite of the fact that considerable farm land was given up to railways, factories, and houses, by 1913 the total farm-land area had increased to 5,794,000 *cho*, and by 1922, to 6,090,000 *cho*. In the mineral products, the increase was far more striking. In 1874, for instance, copper production was only 3,516,000 *kin* (one *kin* equal 1.322 lbs.). This increased to 110,000,000 *kin* in 1913, an increase of about thirty times. The product increased to 180,000,000 *kin* in 1917. In the same interval (1874-1917) the amount of coal mined also increased from only 208,000 French tons to 21,316,000, or more than a hundred times. By 1919 it had increased to 31,271,000 French tons. Similar increases were seen in silver, petroleum, sulphur, and other mineral products, as shown in Table 1. The development of Japan's economy, we must admit, owes a great deal to the exploitation of national resources as indicated in these figures.

The exploitation of these resources, however, reached a climax during the World War and from then on gradually failed to keep pace with the development of national economy. Table 1 shows in its lower columns that the Japanese mineral products, which had been increasing in production to the time of the Great War, began to decrease in most cases, especially copper and petroleum, which occupy the second or third position in importance among all mineral products. Their present output is even smaller than the pre-war figures. In 1913, for instance, the output of copper was 110,000,000 *kin*, the output of petroleum, 1,694,000 *koku* (one *koku* equals 39.7 American gallons), which decreased to 101,000,000 *kin* of copper and 1,406,000 *koku* of petroleum in 1927. It has been the same with the arable land, which was on a steady increase up to 6,098,000 *cho*, in 1921, but began to decrease then, down to 6,080,000 *cho* in 1926, a decrease of about 20,000 *cho* as compared with 1921. During 1927, there was no increase.

It is a striking fact that the decreases in mineral products and farm-land area have been unavoidable and could not be prevented by any such means as extraordinary protection given by the Govern-

ment. The import duty on copper, for instance, was raised in 1922, from yen 1.20 per 100 *kin* to yen 7.00. (The latter rate represents a protection amounting to yen 7,000,000 per annum, as the annual production of copper is about 100,000,000 *kin*). The import duty on petroleum, too, was raised in 1924 from yen 0.17 per 10 gallons to yen 1.70. In the case of coal, government protection is afforded by limiting the import of the cheaper Fushun coal, but even this has not prevented a decrease in production. There is also a special law to keep up the price of rice. Another law, enforced after June, 1919, encourages reclamation by giving subsidies to persons who undertake reclamation for the purpose of cultivation. Through the operation of these measures, the land reclaimed since 1921 totals 171,471 *cho*.

The amazing development of Japan's economy during the early years of the Meiji period, in spite of the difficulty of competing with advanced industries abroad, was primarily due to the low wages of labor. In truth, lower wages constituted the one weapon by which Japanese capitalists were able to compete with other nations. At present China enjoys this advantageous position. With the Sino-Japanese War as a dividing line, however, wages began to rise at a rapid rate, as shown in column A of Table 1. Starting from 1873 with 100 as the index number, prices rose in about twenty years only to the level of 130 (excepting in 1882, the period for unconvertible notes). By 1900 the index number had risen to 208, and by 1912 to 293. In 1926 the index number reached the peak of 918. The prices current in 1926 were, therefore, more than seven times as high as those prior to the Sino-Japanese War (1892). In the meantime, the rise in wages, as indicated by index numbers, was considerably less rapid than the rise in prices.

The extraordinary rise in wages since 1900 has resulted in a great increase in the cost of production and therefore in reducing Japan's power to compete with foreign industries. This is especially true of competition with China, where wages are still very low. Various industries have arisen in that country in recent years which menace Japan's industrial development. The difficulty for Japan is, therefore, internal as well as external. Most of the industries which sprang up because of low wages have either declined or gone out of existence.

TABLE NO. 1
Showing rise in wages and prices.¹

YEAR	(A) INDEX NO. OF TOKYO PRICES	(B) INDEX NO. OF TOKYO WAGES
1873	100	—
1877	110	—
1882	142	—
1887	133	—
1890	130	—
1892	130	—
1900	208	100
1907	266	128
1912	293	141
1917	376	181
1920	842	405
1926	918	437

¹Column (A) contains index numbers for prices in Tokyo starting with 100 in 1873. Data have been taken from the figures of the Money Investigation Society, the Ministry of Agriculture and Commerce and the Tokyo Chamber of Commerce.

Column (B) contains index numbers prepared by the Tokyo Chamber of Commerce regarding wages in Tokyo, starting with 100 in the latter half of 1900. In the case of wages as well as prices, there has been an increase of approximately 450% since 1900.

The war with China in 1894-95 and the war with Russia in 1904-05 were turning points in Japan's industrial development. One of the main causes for this sudden and extraordinary economic development after these wars was the growth of Japan's imperialism. During these years there was a rapid increase in the export of manufactured articles to the colonies and China. Trade statistics show that exports to Korea, Formosa, and Kwantung (a sort of Japanese colony) from 1898 to 1902 totaled only yen 16,700,000 per annum. This average increased to yen 110,000,000 from 1912 to 1915, and to yen 436,000,000 from 1924 to 1926. Average annual exports to China for these three periods, 1898 to 1902, 1912 to 1915, and 1924 to 1926 were yen 38,217,000, yen 143,245,000, and yen 409,583,000 respectively. This extraordinary increase in exports to China was due mainly to the exercise of Japan's imperialistic privileges in customs tariffs and extraterritorial rights.

The development of industries in Japan has been, for the most part, due to low wages and to an increase in exports to China. In

the main, the industries that grew up were those that required considerable labor but very little technical skill. Inasmuch as such unrefined articles are not demanded in advanced countries of the West, China naturally became the best buyer of Japan's industrial products. Moreover, China is Japan's immediate neighbor and the special rights secured by the latter as the result of war with China and later with Russia gave Japan special facilities for extending her markets in China. The following table shows the dependence of Japan's industries upon trade with China. The total export figures do not include raw silk.

TABLE NO. 2
Comparison of exports to China with Japan's total export trade

Year	EXPORTS TO CHINA: (in 1000 yen)							
	Total exports (not including raw silk)	CHINA		KWANTUNG		HONGKONG		Total
	(in 1000 yen)	Amt.	Per cent	Amt.	Per cent	Amt.	Per cent	Per cent
1887-92	29,585	6,856	23.17			8,513	28.78	51.95
1893-97	42,490	12,162	28.63			19,121	44.98	73.61
1898-02	134,049	38,218	28.51			34,521	25.75	54.26
1908-11	262,308	77,946	29.72	18,912	7.21	22,049	8.41	45.34
1912-15	404,910	143,245	35.38	25,463	6.29	30,753	7.59	49.26
1920-23	995,825	325,802	32.72	82,721	6.29	63,528	6.38	47.39
1924-26	1,286,092	409,583	30.18	63,538	7.10	63,538	4.94	43.89

How much the development of manufacturing industries in Japan is due to exports to China is revealed by analyzing the principal export articles. In 1922 exports to China of the following articles amounted to 69.37 per cent of the total exports of those same articles: cotton yarn, cotton fabrics, refined sugar, beer, paper, glass and glass articles, machines and their parts, articles of iron, rubber tires, umbrellas, lamps and their parts, cotton blankets, soap, hats, and insulated electric wire. These include almost all important articles of export from Japan. That is to say, Japan depends upon China for about 70 per cent of her principal export trade. These figures explain clearly that Japan's industries, so far as foreign trade is concerned, depend much upon exports to China.

But Japan's export trade to China has begun to decrease in recent years. What is the cause for this decrease? The fundamental cause lies in the recent development of manufacturing industries in China owing to low wages. In her manufacturing industries, China is now passing through the stage which Japan experienced in her post-Restoration years. A similar remarkable development of national economy is now going on in China.

Exports to China from America or Great Britain are mostly

articles that China cannot produce at present. In this more highly technical production countries like Japan and China are unable to compete. The industries springing up in China are, therefore, of the type that affect Japan. After the European War, modern industries have been undertaken in China with the result that the Chinese have been able to compete with the Japanese even without the help of a protective tariff. The principal articles now being produced in China are as follows: cotton yarn, fabrics, flour, matches, raw silk, refined sugar, oils, beer, paper, leather, handkerchiefs, soap, toilet articles, candles, glass, cigarettes, cement, ribbons, enameled iron articles, canned provisions, umbrellas, knitted goods, towels, hats etc. Without a single exception these articles are formidable rivals of Japanese exports to China. Japanese-made matches, umbrellas, and towels, for instance, have been driven entirely out of the Chinese markets. This is a very severe blow to Japan's capitalistic industries, in view of the fact that nearly one half of her exports of these articles depends upon China. Moreover, China's recovery of tariff autonomy since 1930 has made it possible for her to encourage domestic industries by means of a protective tariff and thus force foreign goods from her home markets. This has meant a further set-back to Japan's economy. Theoretically, Japan might expect a new development by manufacturing articles which require greater technical skill in which a younger nation like China could hardly compete. In fact, some industries in Japan are progressing in this direction, but the solution of the present problem by such means will be extremely difficult.

The rapid industrial development of the early days was due to the Meiji Government's bureaucratic protection and guidance. This paternal attitude was characterized by the following policies:

- (1) Tariffs for the protection of home industries.
- (2) Subsidies to domestic producers for the purpose of increasing their profits. Some of these subsidies were given in fixed amounts of money as in the cases of navigation and iron manufacture, some by guaranteeing a certain rate of dividend, some by giving tax exemptions or certain other privileges, and some by purchasing domestic-made articles irrespective of prices.
- (3) Low interest loans, for the purpose of lightening the burden on capital, or a special law like the "Rice Act," by which the price of an article was regulated in favor of certain groups.
- (4) Organization of certain enterprises by the Government and



THE NIHON BASHI BRIDGE IN THE CENTER OF TOKYO
 As it appeared in 1883 (above) — As it appeared in 1929 (below)
 Compare with illustration on page 199

then selling them to private individuals at exceptionally low prices.

This protective policy was successful in its application to infant industries. When these industries reached the condition to which reference has already been made, those who were responsible for their readjustment neglected fundamental reforms for which hard labor and painful sacrifice were required, and tried to take an easier course. The same protective policy was then abused in order to bolster up old and declining industries. Inasmuch as governmental protection under such circumstances would only help capitalists, it resulted simply in raising prices, and not in helping infant industries.

When an industry begins to decline, there must be some definite cause and the only real remedy lies in an attempt to remove such cause. If protection is continued, it simply encourages responsible individuals to neglect the necessary reforms. In spite of these plain facts, Japan is still a slave to the protective policy. An enormous amount of money has been spent in Japan since the financial reaction of 1920 in various forms such as a protective tariff, government subsidies, financial relief, and the like, constituting a very heavy burden laid directly or indirectly upon the people's shoulders.

Some of the articles on which the people have had to pay ever-increasing prices have been treated as follows by the protective tariff: wheat was duty free prior to treaty revision in 1899, but by the tariff revision of 1911 a duty of yen 1.85 per 100 *kin* was imposed, and this was raised further in 1926 to yen 2.90 per 100 *kin*. For cotton and plain tissues, the duty was raised to yen 15.30 per 100 *kin* in the revision of 1911, and further to yen 23.00 in 1926. In the same period, the duty on iron nails was raised from yen 0.572 to yen 1.25 per 100 *kin* and further to yen 2.40. The duty on copper was raised from yen 1.20 per 100 *kin* in 1911 to yen 7.00 per 100 *kin* in 1926.

The above are typical cases—others might be cited. In addition to the protection by the tariff, the Government has been giving protection under various names and forms such as "subsidies" and "financial relief," through the Central Treasury, the Bureau of Deposits (chiefly of the Postal Savings), the Bank of Japan and other special banks, all for the purpose of assisting capitalists either directly or indirectly. The Bank of Formosa alone obtained relief amounting to yen 200,000,000. Other banks received yen 500,000,000, through the Bank of Japan by way of special loans, making a total of

yen 700,000,000 on this one occasion alone. The money expended under the heads of "protection" and "relief" must necessarily increase the cost of production eventually and thus weaken Japan's ability to compete with other countries. If protection is applied as a remedy whenever Japan's capitalistic industries are confronted with a problem, it can only weaken the whole fabric in the long run. It becomes, as it were, a poison at the very root of industrial development.

At the time of the Restoration of 1868, the samurai, the leisure class of that time was abolished. The system of hereditary trade, by which a class of tradesmen monopolized certain trades, was also abolished and the rule "no labor, no meat," was imposed upon the whole nation. This great reform meant the sweeping away of the conventional custom of leisure and luxury followed by incompetent members of hereditary families, ushering in a new régime for free competition open to every ambitious man. It was a sort of country-wide mobilization for the purpose of consummating a capitalistic system in Japan.

The Russo-Japanese War is the dividing line in the modern history of Japan's economy. For by that time, most of the leaders of the great Restoration work, both in and out of the Government, had either died or retired from active service, and had been succeeded by their sons, or grandsons, who were mostly parasites or had become accustomed to a luxurious life far beyond their means or talents, owing to the wealth bequeathed to them by their predecessors. The leisure class, once abolished was thus revived in this younger generation, through inherited wealth. Many Japanese who held property left to them by their parents came into the management of business corporations or of political parties, a situation not considered by the general public as anything unusual. Most of these men were far more luxurious than their predecessors who had won high positions in society by their actual ability. The extraordinary rise in the cost of living and of production after the European War is really due, more than anything else, to the luxurious habits of this leisure class.

The increase of this class and their growing wealth has been accelerated through the development of a system of investment and other economic schemes.

- (1) Many land-owners have turned into leisured landlords.
- (2) Many capitalists have become mere idlers after learning to live on the interest and dividends of their money invested in securities or deposited in banks.

(3) Those who live upon government pensions or bonuses have quietly increased.

(4) The Government's policies are inclined too much in favor of the capitalists' interests, and as a result most of the benefits due to general social progress go to these capitalists who simply increase the number belonging to the leisured class.

After the installation of the Hamaguchi Cabinet of which he was a member, the late Finance Minister Inouye² issued a pamphlet entitled "An Appeal to the People on the Reform of National Economy and the Removal of Gold Embargo," in which he advocated a so-called "retrenchment policy." In this pamphlet, Mr. Inouye described "the cancer" of present-day Japanese economy as consisting of spending more than is earned, and he blames both the Government and the people for this. In part he wrote as follows:

During the Great War, Japan had an extraordinary revenue and arranged her finances according to her revenue. But when the revenue decreased she did not reduce the cost of living. On the contrary, the cost of living has increased in spite of the reduced income. I believe this is a true description of the condition throughout the country. It is a common rule all over the world that one ought to arrange one's living according to one's income. This common law is being violated in Japan. The Government, for instance, instead of retrenching, is borrowing some yen 100,000,000 in spite of the large deficit.³ Most Japanese, not only individuals but also corporations and banks, have fallen into this habit, and herein is the reason why the economic world of Japan is so unstable and unsound.

Though everyone knows this truth, the difficulty lies in accepting its lessons. In the case of the Government, for example, it is only a matter of reducing expenditure since the revenue has decreased, but this has not been done. The same is true of the people. They are still accustomed to their old habits of luxury which were contracted when they had large incomes, and are yet unable to adjust their habits to changed circumstances. What is the consequence of all this? Simply that prices do not come down. Living is unstable. The embargo on gold, the great obstacle to economic rehabilitation, is still in force. Should such a condition be allowed to continue, business will go from bad to worse, and the world of finance in Japan will remain unstable. The much discussed

²Mr. Inouye was assassinated in January, 1932. (Q.W.)

³The greatly increased military expenditures since the beginning of the Manchurian Campaign in September, 1931, and abandonment of the gold standard in December, 1931, has tremendously increased the government's deficit and dependence on borrowing. (Q.W.)

"depravity of thought" is due primarily to unsound economic conditions, that is, to the popular habit of continuing a luxurious life when income has decreased. Should appropriate reform be neglected, there can be no proper development in national affairs. For the economic reform is a national reform, and the former will be the sole and only way for the future development of Japan as a nation.

This was a very suggestive warning to those who are responsible for the unsound condition of the world of finance after the reaction of 1920, for they neglected the necessary readjustment of their businesses, and continued the "bogus dividend-paying policy," and other temporizing and makeshift management. As a matter of fact, "the readjustment of business," was in order soon after the European War, or more exactly, after the reaction of 1920. But the men interested in the investment of capital persistently avoided this important and necessary work. Instead, they have concentrated their efforts upon temporizing measures. Such a policy is exactly like that of the quack doctor, who puts off a necessary operation with the resulting daily loss of strength. This loss of economic vitality went on for several years, and the financial crisis which visited Japan early in 1927 was but an exposure of the futility of makeshifts. Why, then, did these capitalists continue such foolish makeshifts? One might mention the following four fundamental reasons.

- (1) The necessary adjustment was too sweeping for these capitalists to carry out with any prospect of the continuation of their business.
- (2) By the same token, should they attempt thorough adjustment of their business, they might lose their positions as directors, and bring bankruptcy to some of the shareholders.
- (3) The Government's policy of "financial relief" transferred the loss to innocent people, leaving room for the capitalists to neglect the necessary readjustment and indulge in temporizing measures.
- (4) The capitalists entertained false hopes of future prosperity.

The policy of "relief" and the hopes it has fostered, have deeply implanted a spirit of dependence in the Japanese world of finance. A glance at political conditions after the European War reminds a careful observer of the fact that politics can easily be utilized for the relief of the big capitalists.

When the profits from their business decreased, and other losses, direct and indirect, were sustained due to the decline of prices, our

big business men did not make the necessary readjustment by reducing capital or dividends, but instead, tried to deceive the public by a pretended maintenance of their credit. The directors of large concerns, decided to continue high rates of dividends in spite of the unprofitable condition of their business, and, hence, were forced to tamper with the books. With continuing high dividends, these corporations suffered more than ever from shortage of funds. At first, the deficit was covered by means of loans from banks. But when this became impossible, the responsible men proposed to the shareholders an increase of the capital, or else resorted to debentures from public subscribers, in order to obtain funds for bogus dividends. The fund obtained by the increased capital or debentures, was not used for the business, but mainly for the payment of these false dividends or for meeting past losses.

In order to continue such temporizing measures, it was necessary for the directors to hide the serious condition of the company's business, for had the condition become known to the public, no shareholders would have favored an increase of the capital, nor would outsiders have subscribed to the debentures to be issued by such a company. Directors, therefore, endeavored to show that their companies were in a sound condition by continuing the high and fictitious dividends. As for the shareholders, who paid for the proposed increase of capital, they would accept the high dividends and if necessary, borrow from the banks for the purpose of paying up the additional capital. These shareholders had to depend upon high dividends in order to pay the interest on their bank loans, for should the rate of dividend fall below the rate of interest payable to the bank, the shareholders would be threatened with bankruptcy. They would, under those circumstances, invariably oppose a reduction of dividends, if such reduction were proposed by other shareholders. These companies, therefore, became involved in a hopeless dilemma in which the continuation of bogus dividends was absolutely necessary.

While Japanese capitalists were trying to readjust their business by means of compromise and even illegal measures, the Government also resorted to various measures, for the purpose of assisting these capitalists. Since the financial slump of 1920 the Government repeatedly resorted to such temporizing measures. The first of these was the policy of fixing prices after they had begun to decline, by means of the funds held at the central Treasury and in the

Bureau of Deposits. When prices take a very serious and sudden drop without adequate reason, a policy to prevent further decline is not necessarily a temporizing measure. But the case was quite different. Under the pleasing name of "regulation," the Government tried to prevent a decline of prices that was in complete accord with normal principles of economy, for the purpose of lightening the losses incurred by capitalists. As a result, prices in Japan remained higher than the international level for a long time, causing an inactive condition of export trade and a constant excess of imports, thereby weakening Japan's industrial foundations.

The Government also under the name "financial relief," misused state funds held at the central Treasury and the Bureau of Deposits, by giving relief to wealthy capitalists only, and thus helping them to continue their temporizing measures. The most outstanding cases were relief given to the Kokusai Kisen Kaisha (a steamship company), the Kwasaki Ship-building Company, the Bank of Formosa, the Bank of Chosen, and Suzuki & Company.

After the great earthquake of 1923, moreover, the Government took measures which were responsible for the sharp decline in exchange rates and the consequent unnatural rise in prices. The decline of exchange was due to a *laissez-faire* policy, and the consequent higher prices only helped the capitalists to make ends meet instead of hastening fundamental readjustments. They were thus relieved of the immediate burden, but with very disastrous results in the long run. For in 1926, when the exchange began to improve, business again suffered a painful depression. One industry after another, was threatened with failure. The extraordinary rise in exchange rates in the latter half of 1926 proved a very severe blow and lead to the financial crisis early in 1927. By higher tariffs and other measures of protection, the Government caused further delay in readjustment.

Under the present system of national economy, such temporizing measures were first reflected in the increase of fixed loans from banks, and a consequent shortage of funds in the banks. This policy brought bank failures as early as the middle of 1921. The two semi-government banks, the Bank of Formosa and the Bank of Chosen, began to suffer from accumulated loans and exhausted funds. To meet the situation, they absorbed call deposits amounting to several hundred million yen. Commercial banks, too, began to vie with one another in inviting deposits in order to obtain necessary funds

for new loans. Many banks tried to get additional funds by means of increased capital. Other banks obtained high interest loans to tide them over threatening crises. As a rule, after a financial slump such as that of 1920, the rate of interest declines. But in this country, the rate of interest steadily rose in the wake of the reaction. When Japan was favored with a most prosperous boom in 1919, for instance, the highest current rate of discount on commercial bills was 3.5 sen per day per 100 yen, the average being 2.09 sen. During 1925 and since, the rate mounted to 4 sen and the average was 2.6 sen or higher.

The reason why such an abnormal interest followed the financial reaction of 1920 was that the temporizing measures we have described brought about an ever-increasing waste of money. Both companies and banks were unable to get funds to redeem their debts, so that the urgent demand for funds persuaded them to float more loans irrespective of rates of interest, which naturally rose under such peculiar circumstances.

The end of these temporizing measures was a disclosure of shortage of funds, which threatened failure. The indebted business corporations and banks, unable to redeem loans, merely increased their losses by shifts and subterfuges. Some of them found further temporizing absolutely impossible. At this juncture, there was a sudden rise in exchange rates in 1926, causing considerable loss to exporters dealing in raw silk and other goods. Those banks and business companies which had been weakened to the utmost were unable to continue their lending policy.

For the purpose of preventing failure both capitalists and the Government, conversant with the situation, hit upon a device in the form of "a bill for remedial disposal of earthquake affected notes," introduced in the Imperial Diet early in 1927, and calling for the disbursement of yen 107,000,000. This fund was like a camphor injection to a dying patient. The Government intended to lift the embargo on gold as a result of the "relief" measure, but it was too late. While the bill was under discussion in the Diet, the financial disorder became known to sections of the public, and two or three banks suffered runs in March, 1927. In April such large banks as the Jugo Ginko (Fifteenth Bank) and the Bank of Formosa had to close their doors, thus ruining the credit of Japan abroad in a very serious manner.

How acute this financial crisis was, may be seen from the fact that in order to meet it, the Government declared a three-month moratorium (promulgated on April 23 for instantaneous enforcement), which was a most extraordinary measure according to the law of Japan, and in the meantime, an extraordinary session of the Imperial Diet had to meet (for five days from May 3). In this extraordinary Diet session, the following two bills were passed: (1) A bill for compensating possible losses from special loans to be made by the Bank of Japan within the limit of yen 500,000,000: (2) A bill for accommodating the monetary organs in Formosa amounting to yen 200,000,000.

But before the actual enforcement of the extraordinary "relief" measure, thirty-six banks had closed their doors with a total paid up capital of yen 96,800,000, and deposits amounting to about yen 794,000,000, of which a large portion was already classified under "losses." When the crisis reached a climax, banks prepared huge amounts of money for possible payment of deposits. These amounts may be approximately inferred from the note issue of the Bank of Japan, which, prior to March 15, was about yen 1,080,000,000 but on April 25, increased to yen 2,659,000,000 so that the amount prepared by banks for the possible payment of deposits was about yen 1,600,000,000. On account of this extraordinary note issue, the Bank of Japan had to release all the reserve notes in store, and at the same time make further extraordinary issues of new notes to meet the urgent demands.

Needless to say, another "readjustment of business" on a larger scale became necessary. A large number of banks, companies, factories, and commercial houses of various standings were liquidated. The terror of the crisis, however, failed to persuade the government authorities as well as the capitalists of the need of thorough readjustment. For they sought a remedial measure in these two extraordinary parliamentary bills, with the result that on the financial world of Japan was imposed a heavy burden of about 879,000,000 yen, transferred to the shoulders of the people to relieve a small section of the nation from imminent failure. The intended relief was far from complete, for even in 1929 readjustment was considered necessary as may be seen from the appeal of Finance Minister Inouye to the people from which quotations were given above.